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**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Directors
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware

We have audited the financial statements of the Delaware Transit Corporation (DTC), which is a subsidiary of the Delaware Transportation Authority, a blended component unit of the State of Delaware, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-1 to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of DTC in a separate letter dated October 12, 2007.

DTC's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit DTC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of Delaware Secretary of Transportation, management, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, Department of Finance and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 12, 2007

Schedule of Findings and Responses

2007-1. GASB Pension Accounting

Observation

DTC maintains two defined benefit pension plans outside of the State of Delaware Employee's Retirement System. These plans are funded with contributions from DTC based on actuarial studies and union contracts. Because the actuary used FASB standards to prepare reports it was necessary to complete bridge schedules between FASB and GASB reporting. As a result DTC did not have the necessary information to complete their financial statements and required disclosure on a timely basis.

Recommendation

In the prior year, we recommended that DTC work with its actuary to ensure that the information included in the actuarial reports and financial statements in accordance with GASB standards. This did not occur prior to our audit of the fiscal year 2007 financial statements. We continue to recommend that DTC obtain full actuarial valuations in accordance with GASB standards for both of its defined benefit pension plans on an annual basis in conjunction with its financial reporting process.

Management's Response

DTC has advised its Actuary that all actuarial reporting must be in full compliance with GASB standards. DTC will provide all necessary information to the Actuary prior to the fiscal year-end.